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MAGNA INTERNATIONAL INC. ANNUAL REPORT 1980

1980 Annual Report for Magna International Inc. and its subsidiary companies.

Magna International Inc. is a manufacturer of parts for the North American automotive industry and of sophisticated components and products for the aerospace and defence industries. The Company also fabricates steel for industrial and commercial structures.

Over 70% of Magna's sales are outside Canada. Magna is a Canadian-owned public company listed on The Toronto Stock Exchange.

Contents

Financial Highlights

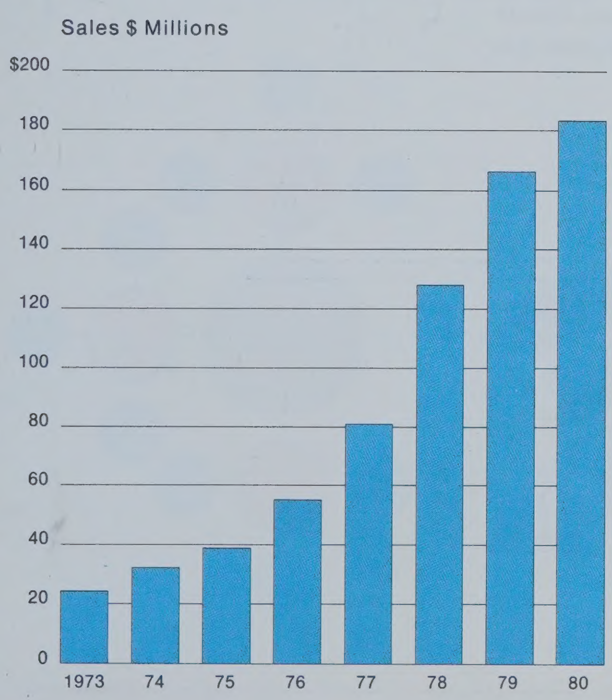
Dollars in thousands except per share figures

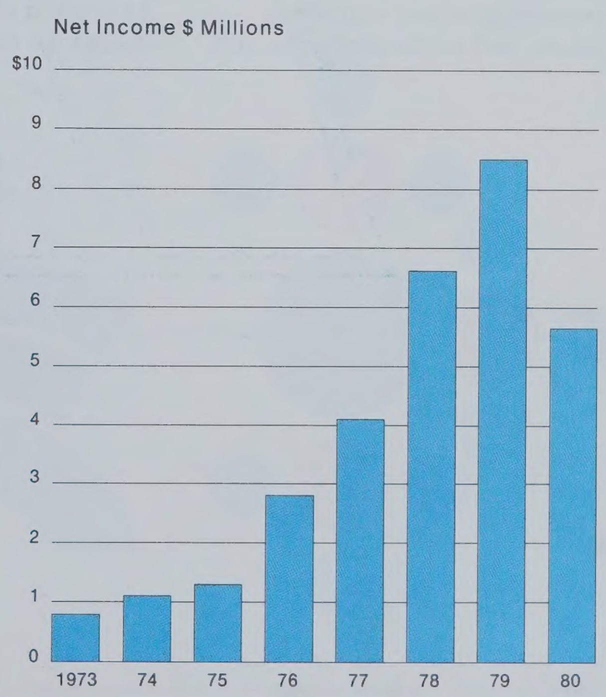
	1980	1979	1978	1977	1976	1975	1974	1973
Sales	**$183,456**	$165,738	$128,189	$80,953	$55,010	$39,415	$31,644	$23,759
Income from operations	**9,249**	15,924	12,899	8,185	5,734	2,880	1,990	1,607
Net income*	**5,640**	8,455	6,595	4,093	2,786	1,339	1,080	808
Working capital	**26,955**	18,866	15,351	7,412	4,925	3,233	2,164	1,588
Earnings per share**								
Class A Common and Class B	**$1.06**	$1.72	$1.42	$0.95	$0.72	$0.34	$0.28	$0.21
Dividends (Annual rate)**								
Class A Common and Class B	**$0.36**	$0.28	$0.19	$0.12	$0.06	$0.03	$0.03	$0.03
6½% Preference	**$6.50**	$6.50	$6.50	$6.50	$6.50	$6.50	$6.50	$6.50
7% Preference	**$1.75**							

**Before extraordinary items*

***Adjusted for years prior to 1979 to give effect to the capital reorganization during 1979.*

Record of Growth





Philosophy and Operating Policies

The continuing success of a corporation depends upon a management that is capable of motivating employees to greater productivity and providing investors with a fair return on their capital.

Demonstration of this capability is also vital to the preservation of the free-enterprise system.

Magna firmly believes free-enterprise is the most efficient economic system and that it continues to offer employees, employers, and society in general the best option for improving the standard-of-living. Corporate profits are the driving force that will allow free-enterprise societies to meet the challenges of other economic systems. We believe all individuals have the right to benefit from their contribution to corporate profits. Business must recognize this right if the free-market system is to survive and prosper.

Employee Equity Participation

Magna believes that the key to resolving present economic, labour and social problems, is to provide employees with the opportunity to obtain an ownership in their Company through a profit sharing plan. This plan will allow employees to become shareholders with greater motivation to be productive and contribute to the growth and well-being of their Company, and their social standing. Each year Magna commits 7% of pre-tax profits to purchase shares in the Company for the benefit of employees. In the 1980 fiscal year $756,000 was allocated to this plan.

Working Conditions

Magna believes effective employees are a company's greatest asset. Employees should be provided with workplaces that are pleasant, clean and safe. Management is constantly striving to upgrade the working conditions for its employees.

Social Responsibility

Magna believes that a company has responsibilities to the society of which it is a part, and should discharge these responsibilities by giving financial assistance and management advice to the development of socially beneficial projects. It is Magna's policy to contribute approximately 1% of pre-tax profits to selected community programs designed to develop healthy and socially responsible individuals.

Technology Development

Magna believes that a developing technology base is essential for the long term well-being of industrial enterprise. It is Magna's policy to allocate approximately 7% of pre-tax profits for approved technology development. These funds are charged as operating expenses at the time they are expended.

Dividends

Magna believes that every investor should benefit from their investment. It is Company policy to pay dividends which represent approximately one-fifth of the profits for the previous year to Class A Common and Class B shareholders.

Operating Structure

The Operating Unit
Each operating unit is an autonomous business operation under the control of a General Manager. The General Manager has complete authority and responsibility for the operation of his unit. These decentralized units generally employ approximately 100 persons thereby allowing the General Manager to have close contact with his personnel and control of all matters affecting the efficiency and profitability of his unit.

Group Management
The operating units are grouped by products or markets under the direction of a Group Manager. The Group Manager is an individual with proven general management capabilities from on-line experience.

The Group Manager provides support to the individual General Manager who is free to draw upon his experience, council, and advice.

The Group Manager also monitors the implementation of operating policies as outlined by Executive Management.

Industrial Division Markets
aerospace
defence
oceanographic
structural steel

Automotive Division Markets
original equipment
automotive aftermarket

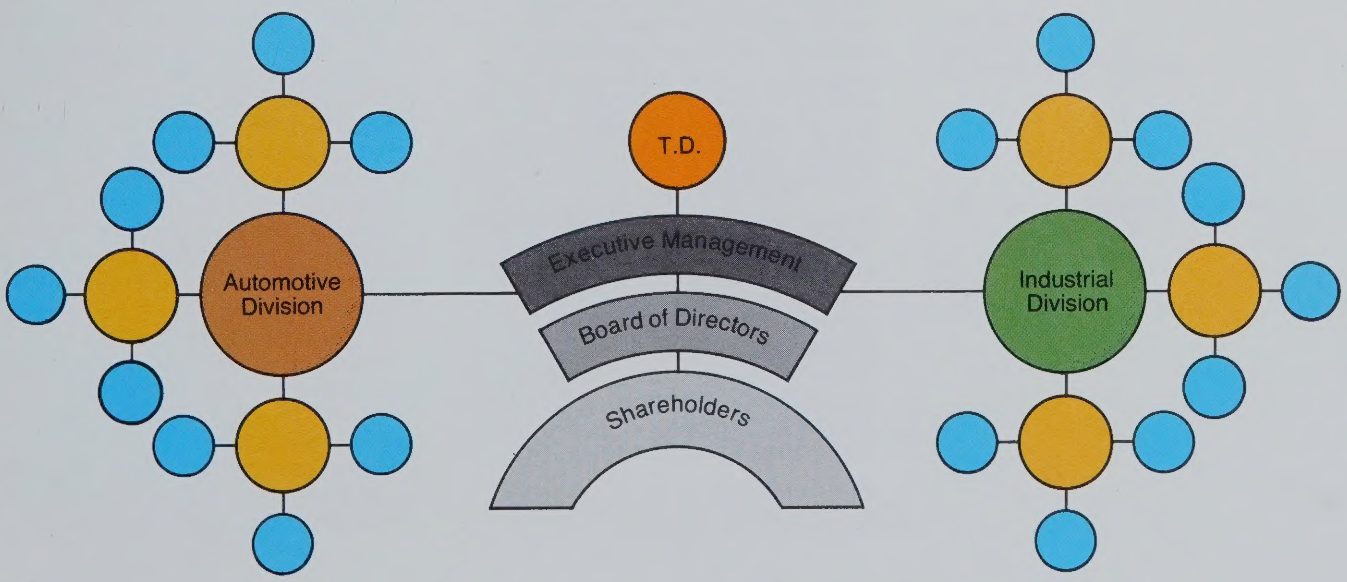
Executive Management
The Executive Management is responsible for establishing operational policies consistent with the Company's philosophy as developed by the Board of Directors.

This group is responsible for the allocation of corporate resources to the automotive and industrial markets, and for monitoring all acquisition opportunities.

The Executive Management coordinates efforts which affect all areas of operation, such as sales and marketing, finance and corporate administration, safety, personnel and employment standards.

Technology Development
Technology Development is an important management tool in its implementation of strategic plans. Allocation of resources and the establishment of development priorities are controlled by the executive.

The Board of Directors
The Board of Directors is elected by and is responsible to the Shareholders and has overall responsibility for the direction of the Company.



FRANK

Report to Shareholders

Frank Stronach
Chairman of the Board,
and Chief Executive Officer

Helmut Hofmann
President,
and Chief Operating Officer

The year just ended presented Magna with many challenges. In view of these challenges, it is appropriate to provide sufficient background information before outlining the activities and operating results of your Company during the 1980 fiscal year.

The latter part of 1979 and the first half of 1980 were periods of general economic decline in both the United States and Canada. A number of economic factors, notably high interest rates for most of the year, and the continuing price spiral for energy, especially for petroleum products, led to a decrease in purchases of consumer durables. The reduction in economic activity was severe enough and was sustained over a sufficiently long period to judge the preceding twelve months a recession.

The low level of economic activity and the general shortage of supply of North American produced, small, energy efficient automobiles combined to cause a 30-35 per cent loss in the demand for automobiles and consequently in their production. Although a general reduction in market demand was expected, the severity of the decline and its duration was generally underestimated. As a result, General Motors, Ford and Chrysler have all reported unsatisfactory financial performance in their North American automobile operations. In spite of these setbacks, all of these firms are implementing large capital expenditure programs to develop the technology and production capabilities required to manufacture small, energy efficient automobiles for this new market demand.

Some segments of industrial markets have not reflected the much lower economic activity. The commercial aircraft, aerospace and defence products markets in the United States have been buoyant. As in the United States, Canada has several significant expansionary production programs under way in both the commercial and military sectors.

In the anticipation, that the decline in automotive markets will be relatively short lived, your Company has adopted a strategy of adding productive capacity in areas of new technology to seize near-future opportunities. Particular emphasis has been placed on products for the new generation of smaller cars.

During the 1980 fiscal year, productive capacity was increased approximately 35 per cent. Reaction injection molded products, automotive electronics, automobile latches and locks, high efficiency electric motors, and manufacturing technology for high strength steel stampings have been the main focus.

In the Industrial Division, there has been a consolidation of technology. Additions in technical capability were made in the Technology Centre designed to support both U.S. and Canadian defence products programs. There has also been a general shift to more technical specialization. Various operating entities have started to specialize in light weight heat exchanger systems for aircraft use, commercial and military aircraft landing gear systems, and the manufacture of precision components for military hardware systems.

During this significant building program, the financial foundation of your Company has also undergone corresponding revisions. Working capital additions were $8.0 millions, which represents a 43 per cent increase. Additions were also made to the equity of the Company to bring equity per share to $6.69 which represents an increase of 5 per cent when compared with 1979.

The further development of a strengthened group management structure has continued during 1980 to allow operating groups to become financially and managerially self-sufficient. This evolution in the Company's management structure is considered to be of utmost importance if your Company's broadened business activities are to continue to be co-ordinated and controlled in an effective and profitable manner.

expl on financing material

1st quarter results?

In spite of unencouraging overall economic conditions, sales rose to a new record of $183.5 millions. Interest rates, which were at unprecedented high levels during the period, and the under-utilization of productive capacity forced a decline of earnings. During fiscal 1980 earnings declined to $5.64 millions compared with $8.45 millions in 1979. The corresponding earnings per share were $1.06 and $1.72 in 1980 and 1979 respectively.

Also during 1980, your management decided to discontinue the operation of its industrial division in the United States and a metal finishing division in Canada. It was also decided to abandon a minority investment position in Mexico. These rearrangements resulted in an extraordinary one-time charge on earnings of $1.9 millions net of tax recovery.

Your Company's automotive division's operating profits were $18.3 millions on sales of $147.6 millions in 1980. 18 per cent of these record sales in 1980 were produced in the United States. During fiscal 1980, 83 per cent of the corporation's capital expenditures were made in the automotive division.

In fiscal 1980, the industrial division posted new record sales of $35.8 millions. Operating profits were $2.2 millions.

Future Outlook

The new generation of fuel efficient automobiles produced by the North American manufacturers are just now beginning to appear in the market place in larger numbers and can be expected to gain a substantial portion of the market. Consumer purchases of automobiles are beginning to increase and it is expected that this trend will continue. The strong trend to lighter cars can be expected to generate continuing new manufacturing and technology development opportunities.

In the industrial sector, significant long term programs particularly in aerospace and defence manufacturing, should result in continued buoyant markets in the future.

Your Company has developed technology and productive capacity which places it in excellent position for new growth from the expected recovery of the economy.

The automotive division has the tooling capacity and capability to support manufacturing changeover programs aimed towards new small car technology. Additional productive capacity for products which are related to the new light weight automotive technology have completed their start-up phases and are ready for major production volumes.

The industrial division has added new design technology for submarine detection systems. The Technology Centre, which provides engineering and product support services to the Canadian Government for military hardware systems, has been expanded and strengthened. Productive capacity in high precision manufacturing has been expanded.

Financially, your Company is in a strong position with the necessary levels of working capital, equity, and cash flow to support the expanded manufacturing and technology development activities.

Your management, with its strengthened group structure, is well prepared to seize new opportunities.

The emphasis on product and technology development is continuing. Significant accomplishments include the development of technology related to high efficiency, light weight, direct current motors, reaction injected molded products, automotive door locks and latches, and new technology for lightweight pulley systems. Negotiations with potential joint venture partners for the further development of the Magna owned process for extracting bitumen from oil sand are currently under way.

The 1981 fiscal period can be expected to be a year of moderately increasing economic activity in which your Company's sales should increase. The strong downward pressure on profit margins will likely be reduced. This factor, combined with some re-alignment of operations, should result in more favourable earnings. Your management is confident of the basic strengths of the markets it serves and your Company's capabilities to seize new opportunities which will result from the expected higher level of economic activity during the following two fiscal periods.

There are many individuals who make significant contributions to your Company's success. We have acknowledged the dedication of our employees by allocating $756,000 during 1980 to the Employee Deferred Profit Sharing Plan. We would also like to thank our directors, customers, and suppliers for their continued support. Your management believes, that during 1980, your Company has shown its strength and resiliency in responding to both expected and unexpected economic and technological change and continues in a strong position for future growth.

Frank Stronach
Chairman of the Board,
and Chief Executive Officer

Helmut Hofmann
President,
and Chief Operating Officer

Automotive Division

Trim Group
Stamping Group
Mid-West Group
Finishing Group
Accessory Drive Group
Electromechanical Device Group
Reaction Injection Molding Group

The Automotive Division is organized into seven major groups of companies according to product mix and/or geographical location. Annual divisional sales represent about 80% of the Corporation's revenue. Products include aluminum, stainless steel, and electroplated decorative and functional trim, direct current motors, electronic sub-systems, engine pulley systems, chassis components, reaction injection molded components, precision lock mechanisms and plastic components. A wide range of modern manufacturing processes such as roll forming, transfer stamping, anodizing, and chrome plating are utilized in the Division. The illustration overleaf shows a representative sample of manufactured products.

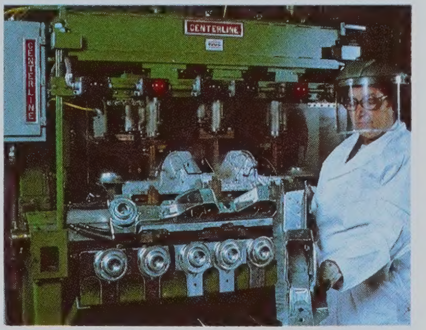
All groups contain extensive integrated tooling, manufacturing and product development capabilities within their individual production centres. These functions can receive additional support from Divisional and Corporate resources. Capabilities have focused on technology related to programs being carried out by the automobile manufacturers for the development of lighter, more efficient cars.

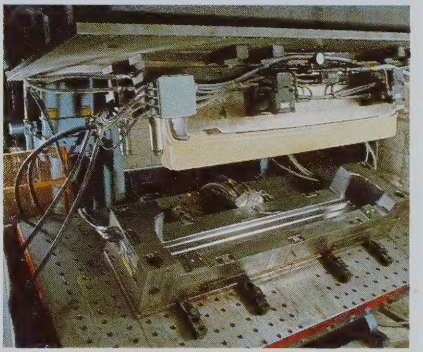
Notable products which have been developed are a much simplified, more efficient single belt pulley system produced by the Accessory Drive Group and precision safety locks manufactured by the Stamping Group. The new pulley system, which has gained wide spread acceptance in North America, is being seriously considered for use by European and Japanese manufacturers as well. The Stamping Group has begun to manufacture chassis components and sub-systems for unibody world car designs.

The Electromechanical Device Group is one of the leading suppliers of direct current motors for automotive use. In addition, the Group has developed a number of electronic devices including the "Fast Start Diesel" system used on all General Motors' diesel powered cars.

The Reaction Injection Molding Group is engaged in the development and manufacture of low weight, highly durable, polyurethane body components which are increasingly replacing metal parts.

The Division's broad management and manufacturing base, outstanding tool-making and development capability, and its continued emphasis on quality and dependable product delivery, will assure its continued growth during this period of transition in the Automotive Market.



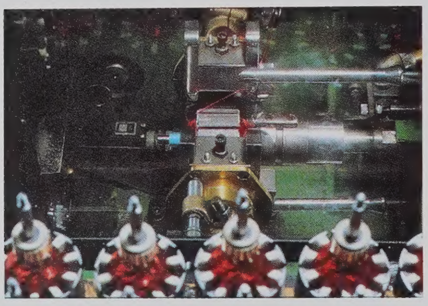


Automatic welding of world car rear axle support

Reaction injection molding of polyurethane bumper cover

Automobiles give freedom to human endeavours

Automotive Division

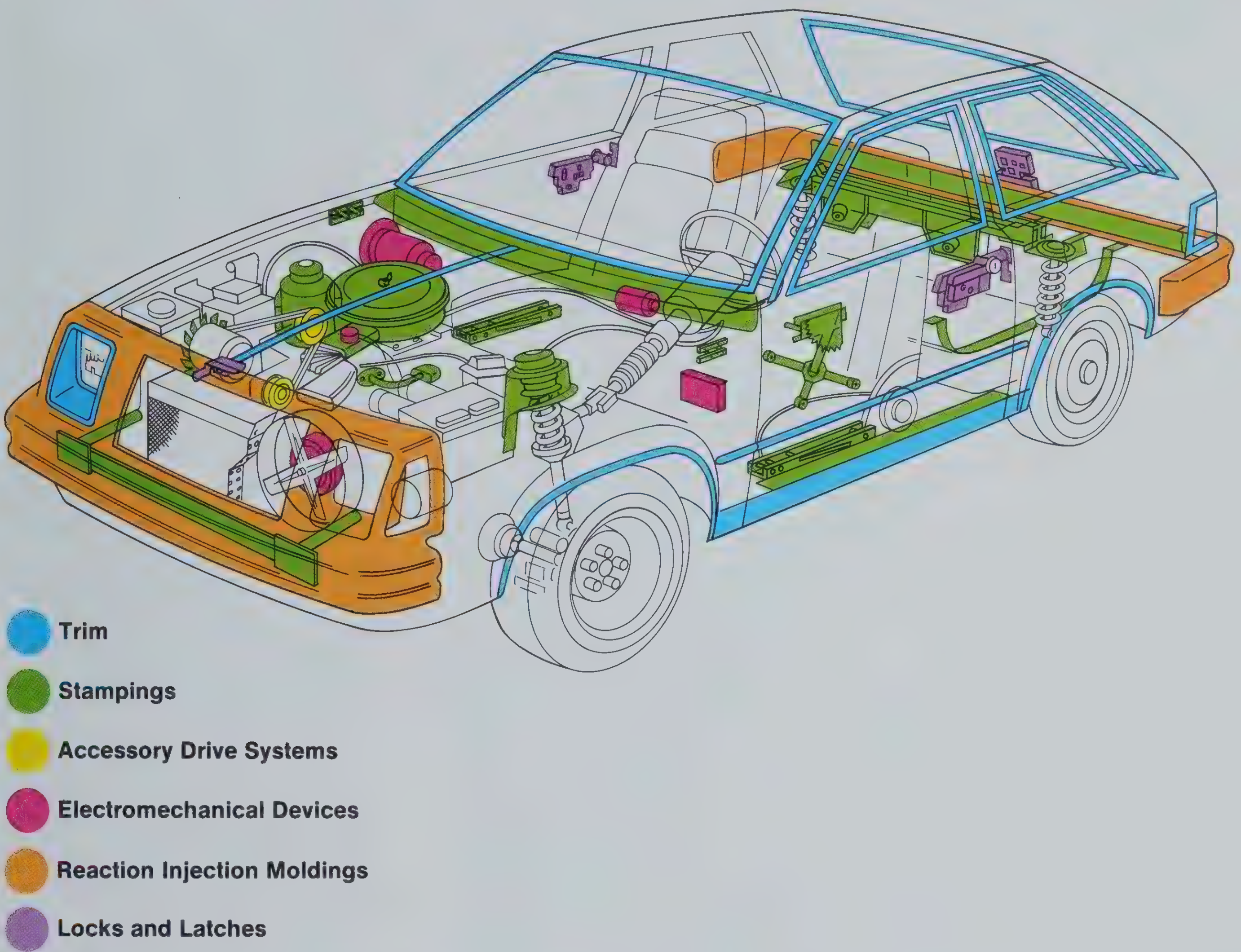


High speed winding of direct current armatures

Assembly of precision safety door lock mechanisms

Direct current motors leaving final finishing operation

Automotive Division



Trim Group
Manufactures interior and exterior body ornamentation of cold-rolled steel, aluminum, stainless steel, and a bi-metal composition of aluminum and stainless steel.

Accessory Drive Group
Leading supplier of light-weight pulleys and accessory drive components.

Stamping Group
Mid-West Group
Produces high strength steel stampings, light-weight trim components, locks and latches, and engine oil strainers.

Electromechanical Device Group
Products include D.C. motors, relays and automotive electronics.

Reaction Injection Molding Group
Manufactures front and rear bumper fasciae utilizing the latest polyurethane molding technology.

Finishing Group
Product finishing includes anodizing, painting and chrome plating of cold-rolled steel, aluminum and plastic.

Industrial Division

Aerospace/Defence Group
Hermes Electronics
Structural Steel

The Industrial Division is organized into the Aerospace/Defence Group, Hermes Electronics and the Structural Steel operation. The Division is a de-centralized self-sufficient enterprise which manufactures precision mechanical components for high technology defence and commercial markets, and electronic and electromechanical systems for military communications and submarine detection. The Structural Steel subsidiary designs and fabricates building and special purpose steel members. The Division's sales represent about 20% of Magna's consolidated revenues.

Hermes Electronics has a leading position in the development, design and manufacture of hydroacoustic sensor and data transfer systems as well as high frequency communication equipment to exacting military specifications.

Hermes is one of three North American manufacturers of highly critical passive submarine detection sensors. Submarine detection and monitoring is continuing to be an increasingly important component of North American defence strategy.

Activities in this area are expected to continue to expand. Hermes has several large technology and product development programs to assure its position of technical leadership.

As a direct outcome of its development activities, Hermes has become a leading designer of advanced ocean data acquisition and analysis systems which are employed by the offshore oil industry, oceanographic scientists and weather forecasting agencies.

Hermes has the most advanced hydroacoustic test and development centre in private Canadian industry. The extensive systems development, design and manufacturing capability will continue to provide an excellent basis for sustained growth.

Dimensional verification of Boeing 747 landing gear component

Technologist completing operational tests on high frequency transmitter

On-line function and calibration testing of sonobuoys

Operator completing set-up of computer numerically controlled machining centre

Industrial Division

The Aerospace/Defence Group manufactures components for military and commercial aircraft landing gear, navigational equipment, transducers, and other sophisticated military hardware. Production capabilities include computer controlled machining, aluminum dip brazing and exacting assembly operations, all of which are controlled by critical quality assurance systems. The group is the sole-source supplier of engineering services and components making up the product support requirements for a significant sector of Canadian military hardware. The Technology Centre, which contains a broad range of technical expertise, not only supports existing programs, but also gives the group considerable strength in the domestic and international aerospace/defence markets.

The Structural Steel company is an accredited designer and fabricator of structural steel for commercial and industrial construction and for resource and utility requirements. Projects range from structures that combine function with esthetic appeal to steel framing for large buildings, and fabrications for nuclear and heavy water plants.

Landing gear component manufacturing on six spindle high capacity profile milling machine

Architecturally designed steel structure fabricated and erected by the structural steel group

Technology Development

Magna's policy of allocating about 7% of pre-tax earnings to technology and product development continues to provide the resources to emphasize this very important commitment. These funds, which are charged against income when expended, support programs which are expected to develop commercially profitable technology and products.

Development programs in automotive electronics have resulted in technology for fuel consumption monitoring and reduction, and for diesel engine fast start systems.

Expanded programs are developing plastic components manufactured by the reaction injection and reinforced reaction injection molding processes for use in automotive body structures. Additional technology related to the single belt pulley system is continuing to be developed.

Computer aided data acquisition and test systems have been added to the hydro-acoustic development centre to support the engineering of the next generation of sonobuoys and other military and commercial data acquisition and processing systems.

The technology centre in the Aerospace/Defence Group has acquired greatly expanded capabilities for the technical support of military hardware systems.

Computer-based data acquisition during developmental testing in Hermes' underwater hydroacoustic facility

Electronic circuit design for the development of future sonobuoys

Reaction injection molded sample undergoing physical property testing

Financial Review

Sales and Earnings

As stated in the "Report to the Shareholders", 1980 was a difficult year for both sales and earnings. After experiencing rapid growth throughout the 1970 decade, 1980 sales increased about 11 per cent to a record level of $183.5 million, up from $165.7 million in 1979. As the Company's sales are primarily from the manufacture of components for the North American automotive industry, the increase in sales must be considered a commendable feat in light of the industry's poor performance in 1980.

Earnings, before extraordinary items, decreased for the first time since 1971, to $5.6 million from $8.5 million last year. These results are third highest in the Company's history. The decline in profits is primarily caused by shorter production runs and by the Company moving into new areas of production in order to satisfy the demand for lighter, more fuel efficient cars. Magna made significant investments in the development of new technologies in plastic and lock production. These costs reduced 1980 earnings, but should contribute significantly to future profits. In addition, much higher interest expenses, shorter production runs resulting in lower operating margins, and losses incurred on discontinued operations had negative effects on the current year's earnings.

Financial Position

As reported in last year's report, $11.2 million ($5.6 million each in convertible debentures and convertible preference shares) was raised early in 1980 to finance part of the planned capital expenditure for both 1980 and 1981. In addition, about $15.7 million was raised through lien notes, mortgages and capital assistance grants. As a result, the increase in working capital of $8.1 million for 1980 and the resulting working capital ratio of 1.71 is abnormally high because part of the funds raised were to finance future (1981) capital investments.

It is anticipated at this time that capital expenditures for 1981, to prepare for growth in operations in 1982 and future years, will approximate those of the previous two years. These expenditures will be financed using a combination of normal financing methods resulting in a limited increase in the amount of working capital which will reduce the working capital ratio to more normal values. A financially strong ratio for our Company's industrial sector will be maintained at the end of the 1981 fiscal year.

Dividends

Magna's policy is to pay dividends to shareholders representing approximately one-fifth of the previous year's profits. Your directors are of the opinion that the earnings of 1981 and future years should return to higher levels than reported in 1980. As a result, the annual dividend rate for 1981 has been maintained at the 1980 rate of $0.36 per annum for each Class A Common and Class B share.

Murray G. Kingsburgh, C.A.
Vice-President Finance and Secretary

Consolidated Statement of Income and Retained Earnings

YEAR ENDED JULY 31, 1980 *(with comparative figures for 1979)*

(dollars in thousands except per share figures)

	1980	1979
Sales from continuing operations	**$183,456**	$165,738
Income from continuing operations before the following	**$ 23,693**	$ 25,117
Deduct:		
Depreciation	**6,154**	4,506
Interest on long-term debt (including amortization of debenture issue expense)	**4,908**	2,899
Other interest expense	**1,573**	1,099
Amortization of goodwill	**123**	68
	12,758	8,572
Income from continuing operations	**10,935**	16,545
Loss from discontinued operations (note 2)	**1,686**	621
Income before income taxes, minority interest and extraordinary items	**9,249**	15,924
Income taxes	**3,456**	6,677
Income before minority interest and extraordinary items	**5,793**	9,247
Minority interest	**153**	792
Income before extraordinary items	**5,640**	8,455
Extraordinary items (note 3)	**(1,922)**	272
Net income for the year	**3,718**	8,727
Retained earnings, beginning of year	**24,559**	17,094
	28,277	25,821
Deduct dividends:		
Preference shares	**304**	7
Class A Common and Class B shares	**1,708**	1,255
	2,012	1,262
Retained earnings, end of year	**$ 26,265**	$ 24,559

Earnings per share:

	Before extraordinary items		After extraordinary items	
	1980	1979	**1980**	1979
Basic—				
Class A Common and Class B	**$1.06**	$1.72	**$.68**	$1.78
Fully diluted—				
Class A Common and Class B	**$ .96**	$1.50	**$.66**	$1.55

(See attached notes)

Magna International Inc.
(Incorporated under the laws of Ontario)
and its subsidiary companies

Consolidated Balance Sheet

JULY 31, 1980 *(with comparative figures at July 31, 1979)*

(dollars in thousands)

Assets	**1980**	1979
Current assets:		
Cash	**$ 115**	$ 306
Accounts receivable	**30,228**	26,823
Inventories (note 4)	**33,176**	34,756
Prepaid expenses and deposits	**1,638**	1,158
Total current assets	**65,157**	63,043
Investment in associate company (notes 2 and 3)		345
Fixed assets (note 5):		
Leased	**1,907**	1,907
Owned	**82,571**	61,108
	84,478	63,015
Less accumulated depreciation	**21,849**	15,926
	62,629	47,089
Other assets:		
Goodwill (excess of purchase price of interests in subsidiary companies over fair value of underlying net tangible assets)	**3,191**	3,417
Debenture issue expense, at amortized cost	**236**	262
Sundry assets, at cost	**925**	927
	4,352	4,606
	$132,138	$115,083

(See attached notes)

On behalf of the Board:

Director

Director

(dollars in thousands)

Liabilities	**1980**	1979
Current liabilities:		
Bank indebtedness (accounts receivable and inventories pledged as security)	**$ 13,757**	$ 17,173
Accounts payable and accrued charges	**16,956**	18,456
Income and other taxes payable	**2,844**	4,502
Long-term debt and lease obligations due within one year	**4,645**	4,046
Total current liabilities	**38,202**	44,177
Long-term debt (note 7)	**42,591**	26,961
Lease obligations and deferred income (note 6)	**3,239**	3,480
Deferred income taxes	**4,676**	5,539
Minority interest in subsidiary companies	**3,951**	2,733
Shareholders' equity (note 8):		
Capital stock—		
Authorized:		
8,362 6½% cumulative sinking fund preference shares with a par value of $100 each, redeemable at $105		
Preference shares with par value of $25, issuable in series		
224,000 7% non-voting, cumulative, convertible preference shares, 1980 Series		
18,788,310 Class A Common shares without par value		
2,061,690 Class B shares without par value		
Issued:		
862 6½% preference shares (1979—1,073 shares)	**87**	107
224,000 7% preference shares, 1980 Series (1979—nil)	**5,600**	
3,051,532 Class A Common shares (1979—3,035,272 shares)	**5,244**	5,224
2,001,558 Class B shares (1979—2,017,818 shares)	**2,283**	2,303
Retained earnings	**26,265**	24,559
	39,479	32,193
	$132,138	$115,083

(See attached notes)

Auditors' Report

To the Shareholders of
Magna International Inc.:

We have examined the consolidated balance sheet of Magna International Inc. as at July 31, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at July 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

Toronto, Canada,
November 3, 1980
(except as to note 3 which is as of November 27, 1980).

Consolidated Statement of Changes in Financial Position

YEAR ENDED JULY 31, 1980 *(with comparative figures for 1979)*

(dollars in thousands)

	1980	1979
Sources of working capital:		
From operations—		
Income to shareholders—continuing operations	**$ 6,724**	$ 8,898
—discontinued operations	**(1,084)**	(443)
Income before extraordinary items	**5,640**	8,455
Charges to net income which do not reduce working capital, including depreciation, deferred income taxes, amortization and minority interest—continuing operations	**6,179**	6,681
—discontinued operations	**233**	139
	6,412	6,820
	12,052	15,275
Proceeds from disposal of fixed assets (net of income taxes)	**336**	2,375
7% preference shares, 1980 Series	**5,600**	
Convertible debentures	**5,600**	
Capital contribution by minority interest	**1,000**	
Class A Common and Class B shares issued		1,351
Lease obligation		667
	24,588	19,668
Uses of working capital:		
Additions to fixed assets	**23,630**	23,085
Financed by—		
Lien notes payable	**(8,114)**	(6,830)
Mortgages payable	**(3,194)**	(6,584)
Capital assistance grants	**(4,428)**	(388)
	7,894	9,283
Decrease in long-term debt and lease obligations	**4,765**	3,576
Dividends	**2,012**	1,262
Extraordinary (income) loss ($27,000 of 1980 loss does not affect working capital)	**1,828**	(495)
Acquisition of controlling interests in subsidiary companies (net of working capital deficiencies)		896
Cost of acquisition of minority interests in subsidiaries		750
Increase in sundry assets		666
Increase in debenture issue expense		189
Increase in equity in associate company		26
	16,499	16,153
Increase in working capital	**8,089**	3,515
Working capital, beginning of year	**18,866**	15,351
Working capital, end of year	**$26,955**	$18,866

(See attached notes)

Notes to the Consolidated Financial Statements

July 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation—
The consolidated financial statements include the accounts of Magna International Inc. and its subsidiaries, some of which have a minority interest. All significant intercompany balances and transactions have been eliminated in consolidation.

Foreign exchange—
Assets and liabilities stated in other currencies, together with the accounts of the company's U.S. subsidiaries, are translated as follows:

Monetary assets and liabilities—at year-end rate of $1 U.S. = $1.16 Cdn.

Non-monetary assets and depreciation expense—at historic rates.

Revenues and expenses, other than depreciation—at average exchange rates for the year.

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts, which are reflected in income, were not significant.

Inventories—
Inventories are valued at the lower of cost or net realizable value, with cost being determined substantially on a first-in, first-out basis.

Revenue recognition—
Revenue from sales of manufactured products is recognized upon shipment to customers. Profits on contracts in the company's construction division are accounted for under the completed contract method. Anticipated losses to be incurred on contracts in progress are charged to income as soon as the amount of such losses can be determined.

Research and development costs—
Research and development costs (except for capital assets) are charged against income in the year of expenditure. Such costs totalled approximately $1.2 million in 1980 ($1.1 million in 1979).

Government assistance—
In connection with its industrial division, the company makes periodic applications for financial assistance under available government incentive programs. Grant amounts resulting from these applications are recorded in the accounts on the following basis:

Capital grants—
Grants relating to capital expenditures are reflected as a reduction of the cost of such assets.

Operating grants—
Grants relating to current period expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred.

Income taxes—
In accordance with generally accepted accounting principles, the company follows the tax allocation method of providing for income taxes. Where appropriate, maximum capital cost allowance is claimed for income tax purposes and a related provision is made for deferred income taxes. Income taxes include a provision for deferred income taxes of $250,000 in 1980 ($1,508,000 in 1979).

Investment tax credits relating to fixed asset purchases are accounted for as a reduction in the current year's tax provision, net of the deferred income taxes where applicable. This treatment is commonly referred to as the "flow through" method. As a result, the provision was reduced by a net amount of $175,000 in 1980 and $388,000 in 1979.

Property, equipment and depreciation—
Property and equipment are recorded at historical cost. Expenditures for maintenance and repairs are charged to income as incurred. Properties retired or otherwise disposed of, and the related accumulated depreciation, are removed from the accounts; the net gain or loss is included in income.

Certain lease obligations for property and equipment have been capitalized as they represent financing leases covering the estimated useful lives of the assets. The amounts capitalized in the accounts are equivalent to the present value of future lease payments using the interest rates stated in the leases.

Depreciation is provided on a straight-line basis over the estimated useful lives of leased and owned assets at annual rates of 5% for buildings and 10% for machinery and equipment.

Goodwill (excess of purchase price of interest in subsidiary companies over fair market value of underlying net tangible assets)—
For acquisitions which occurred prior to April, 1974, the value, which totals $2,106,000, is being carried in the accounts at cost without amortization since, in the view of management, there has been no impairment in such value. For acquisitions subsequent to April, 1974, the value is being amortized over such periods as is deemed appropriate for each acquisition. (To date, this amortization has been determined to be over a period of 10 years.)

Earnings per share—
Earnings per share are calculated on the weighted average number of shares outstanding during the year. Fully diluted earnings per share are calculated on the weighted average of shares that would have been outstanding during the year had all of the 8¾% convertible debentures been converted into Class A Common shares at the beginning of the year and all of the 10% convertible debentures and 7% preference shares been converted at the time of their issuance. In making this calculation, the earnings applicable to Class A Common and Class B shares have been increased by the amount of the interest on the convertible debentures, net of applicable income taxes.

2. DISCONTINUED OPERATIONS

During the year the company decided to discontinue its industrial division in the United States and one of its finishing divisions in Canada. It also decided to abandon a minority investment position in Mexico. Operating results from these divisions have been segregated from those of the company's continuing operations in the statement of income.

Anticipated losses in connection with the wind-up of these divisions are reflected in the statement of income as an extraordinary item.

3. EXTRAORDINARY ITEMS

	(dollars in thousands)	
	1980	1979
Provision for write-down of assets and for losses on wind-up of discontinued operations (net of income taxes of $1,570,000) (see note)	**$(1,998)**	
Income taxes recoverable from losses of subsidiaries incurred in prior years	**143**	$495
	(1,855)	495
Portion of income taxes recoverable relating to minority interests	**(67)**	(223)
Extraordinary (loss) gain	**$(1,922)**	$272

Note: It is management's best estimate that the provision for write-down of assets and losses on the wind-up of discontinued operations will not exceed $1,998,000.

4. INVENTORIES

	(dollars in thousands)	
	1980	1979
Raw materials and supplies	**$16,584**	$17,416
Finished and in process	**16,592**	17,340
	$33,176	$34,756

5. FIXED ASSETS

	(dollars in thousands)	
	1980	1979
Land	**$ 4,480**	$ 3,718
Buildings	**11,590**	9,475
Machinery and equipment	**68,408**	49,822
	84,478	63,015
Less accumulated depreciation	**21,849**	15,926
	$62,629	$47,089

6. LEASE OBLIGATIONS AND DEFERRED INCOME

	(dollars in thousands)	
	1980	1979
Long-term portion of capitalized value of lease obligations at their effective interest rates ranging from 5½% to 7¼% maturing over twenty years with purchase options at nominal amounts on termination of leases	**$3,180**	$3,397
Deferred profit on sale of properties leased back from purchasers under ten-year leases with no option to repurchase (amortized over terms of leases)	**59**	83
	$3,239	$3,480

At July 31, 1980 the company had other lease commitments expiring between 1981 and 1990 requiring annual rental payments of approximately $2,000,000 in each of the next five years.

7. LONG-TERM DEBT

(a) An analysis of the company's long-term debt is as follows:

	(dollars in thousands)	
	1980	1979
6½% sinking fund debentures due December 1, 1987 maturing $75,000 annually with the balance due in 1987	**$ 124**	$ 124
8¾% convertible debentures due January 15, 1988	**7,000**	7,000
The 8¾% convertible debentures are convertible into Class A Common shares at a value of $7.46 per Class A Common share until 1983 and $9.33 per share thereafter (with provision for anti-dilution)		
10% unsecured convertible debentures due 1989	**5,600**	
The 10% convertible debentures are convertible into Class A Common shares at a value of $19 per share until 1982 and at varying amounts from $21.50 to $29.00 per share from 1983 to 1989		
Non-forgivable capital assistance loans—non-interest bearing due 1981 to 1985	**5,146**	713
Mortgages payable (secured by land, buildings and equipment of subsidiary companies)—9% due 1980 to 2004	**10,318**	8,611
Lien notes payable (mainly at prime interest rate to prime plus 1%)—due 1980 to 1989	**18,856**	14,329
	47,044	30,777
Less due within one year	**4,453**	3,816
	$42,591	$26,961

(b) Required payments (including $192,000 each year relating to lease obligations capitalized as referred to in note 6) are as follows:

		(dollars in thousands)
1981	—	$4,645
1982	—	4,659
1983	—	4,563
1984	—	3,872
1985	—	6,441

8. SHAREHOLDERS' EQUITY

6½% cumulative sinking fund preference shares—
During the year, the company purchased for cancellation 211 preference shares.

7% preference shares—
During the year, the company issued 224,000 7% non-voting, cumulative, convertible preference shares, 1980 Series, with a par value of $25 each for a cash consideration of $5.6 million.

The preference shares are convertible into Class A Common shares at $19 per share until 1986 after which the shares may be purchased for cancellation by the company at their par value. These shares are redeemable by the holder after 1989 provided that none of the 6½% cumulative sinking fund preference shares are outstanding at that time.

Class A Common and Class B shares—
Class A Common shares have the following attributes:

(a) Each share is entitled to one vote per share at all meetings of shareholders.
(b) Each share shall participate equally as to dividends with each Class B share.

Class B shares have the following attributes:

(a) Each share is entitled to 500 votes per share at all meetings of shareholders.
(b) Each share shall participate equally as to dividends with each Class A Common share.
(c) Each share may be converted at any time into a fully-paid Class A Common share on a one-to-one basis.

In the event that either the Class A Common shares or the Class B shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class.

During the year 16,260 Class B shares ($20,000) were converted into Class A Common shares.

9. SEGMENT INFORMATION

The company operates primarily in two industries—automotive and industrial. Automotive operations include the manufacture of automobile parts for original equipment manufacture as well as for the after market. Industrial operations are primarily manufacturing for the defence-aerospace industry. The following is an analysis of 1980 operations by segment (dollars in thousands):

	Automotive	Industrial	Consolidated
Revenue:			
Canada	$120,221	$35,823	$156,044
United States	27,412		27,412
Total revenue	$147,633	$35,823	$183,456
Operating profit:			
Canada	$ 14,780	$ 2,180	$ 16,960
United States	3,566		3,566
Segment operating profit	$ 18,346	$ 2,180	20,526
Interest expense			6,481
Corporate expenses			3,110
			9,591
Income from continuing operations			10,935
Loss from discontinued operations			1,686
Income before income taxes, minority interest and extraordinary item			$ 9,249
Assets specifically identifiable to an industry segment:			
Canada	$ 77,355	$24,889	$102,244
United States	14,718		14,718
	$ 92,073	$24,889	116,962
Corporate and other assets			15,176
Total assets			$132,138
Depreciation	$ 5,441	$ 713	$ 6,154
Capital expenditures	$ 19,840	$ 3,790	$ 23,630

Canadian revenue includes export sales of $96,807,000.

Substantially all revenue from the automotive segment is derived from sales to the North American automobile manufacturers.

10. TRANSACTIONS WITH RELATED PARTIES

Included on the Board of Directors is the president of a company which currently is a vendor of machinery and equipment to Magna. Another member is a partner in the legal firm which acts as the company's solicitors. The company leases certain of its real estate from companies controlled by certain of the officers of Magna. Also, the company's construction division undertook contracts with two companies controlled by officers of the company. Transactions between the company and these related parties totalled approximately $4 million in 1980, the bulk of which relates to equipment purchases. Loans totalling $87,000 to officers/directors to assist them to purchase shares of the company were outstanding at the year-end.

11. COMPARATIVE FIGURES

Certain of the prior year's accounts have been reclassified to conform to the current year's presentation.

Eight Year Comparative Summary

Dollars in thousands except per share figures

	1980	1979	1978	1977	1976	1975	1974	1973
Operations Data								
Sales	**$183,456**	$165,738	$128,189	$80,953	$55,010	$39,415	$31,644	$23,759
Income from operations	**9,249**	15,924	12,899	8,185	5,734	2,880	1,990	1,607
Net income before extraordinary items	**5,640**	8,455	6,595	4,093	2,786	1,339	1,080	808
Extraordinary items	**(1,922)**	272	795					
Earnings per share*								
Before extraordinary items Class A Common and Class B	**$1.06**	$1.72	$1.42	$0.95	$0.72	$0.34	$0.28	$0.21
After extraordinary items Class A Common and Class B	**$0.68**	$1.78	$1.59					
Depreciation	**6,154**	4,506	3,349	2,210	1,416	1,118	890	572
Cash flow from operations	**12,052**	15,275	13,160	7,542	5,171	2,757	2,241	1,447
Dividends per share* (Annual rate) Class A Common and Class B	**$0.36**	$0.28	$0.19	$0.12	$0.06	$0.03	$0.03	$0.03
Financial Position								
Working capital	**26,955**	18,866	15,351	7,412	4,925	3,233	2,164	1,588
Capital expenditures	**23,630**	23,085	16,231	8,584	3,456	2,016	2,237	1,014
Fixed assets (Less accum. depreciation)	**62,629**	47,089	30,269	19,387	8,940	6,900	6,001	3,745
Long-term debt	**42,591**	26,961	16,607	7,767	4,469	4,398	3,962	2,503
Equity relating to Class A Common and Class B shares	**33,792**	32,086	23,270	15,266	9,646	6,951	5,726	4,677
Equity per share* Class A Common and Class B	**$6.69**	$6.35	$4.82	$3.36	$2.49	$1.80	$1.49	$1.21

**Adjusted for years prior to 1979 to give effect to the capital reorganization during 1979.*

Industrial robot finishing reaction injection molded bumper covers

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Magna's strength is the co-operative efforts of its dedicated employees

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Chairman of the Board and
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Solicitors:

Miller, Thomson, Sedgewick,
Lewis & Healy, Toronto

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Symbols: Class A Common—MG A
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